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TAGS: [ECON](#) [EMIN](#) [EINV](#) [BL](#)
SUBJECT: BOLIVIA: UPDATE ON MINING SECTOR WOES

REF: LA PAZ 1596

Classified By: EcoPol Chief Mike Hammer, reasons 1.4 b,d

1. (SBU) Summary: Although industry insiders do not currently expect the Bolivian government to nationalize the mining sector, a new inflation adjustment for taxes threatens "expropriation by taxation" for a number of companies (reftel). International interest in investing in the Bolivian mining sector is low, and no large-scale exploration is underway, despite record-high world metal prices. Community relations problems continue to plague small and medium-scale mines, while the largest mine in-country (Apex and Sumitomo's San Cristobal mine) faces a higher tax rate than any other enterprise in Bolivia. The expected development of Santa Cruz's Mutun iron deposit by India's Jindal--much lauded by the Bolivian government--is still in the initial exploration stages, much to the frustration of the local community. Despite the mining boom worldwide, Bolivian mining operations are talking in terms of "survival," hoping to outlast the current administration. End summary.

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Not Necessarily Nationalization
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2. (SBU) Many observers are wondering what populist announcement can be expected from President Morales on Bolivia's August 6 national day to boost his popularity in the run-up to the August 10 recall referendum. Although the electricity industry is often mentioned as a possible nationalization target, some mining sector experts harbor lingering fears that individual mining companies or the

entire sector could be nationalized. According to President of the Bolivian Mining Association Humberto Rada, the current threat to mining in Bolivia is nationalization due to "creeping expropriation" as new inflation adjustments for taxes again hit the mining industry disproportionately hard (reftel).

13. (SBU) Foreign investors currently view nationalization as a threat to the mining industry in Bolivia. The Fraser Institute's annual Survey of Mining Companies (available online at www.fraserinstitute.org) elicits the opinions of executives of exploration, development and other mining-related companies worldwide regarding the business environment in various countries. Executives surveyed in the 2007/2008 report listed Bolivia as second-worst (better only than Ecuador) in terms of political stability. International Royalty Corporation CEO and Chairman Douglas B. Silver told Emboff that Bolivia ranked among his "ten worst places to invest," primarily because of uncertainty surrounding the possibility of nationalization. Although Bolivian authorities have in the past year tried to allay these fears with public statements denying plans to nationalize mining, investors have long memories. The nationalization of Glencore's Vinto smelter and early statements by Morales and his ministers, as well as the May 2006 declaration of all mineral deposits as "national reserves" continue to influence investor decisions.

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Community Mine "Takings"
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14. (SBU) In a country where the indigenous majority has been historically marginalized, it is arguably a positive development that indigenous communities have more say in the exploitation of natural resources. The resulting conflicts are proving challenging for the mining industry, however. Indigenous and community issues prompted respondents to the Fraser Institute survey to rank Bolivia as least attractive for investment in terms of "uncertainty concerning native/aboriginal land claims." President Evo Morales' draft constitution would grant indigenous groups much more say over the use of natural resources, the UN Declaration of Rights of Indigenous Peoples is now Bolivian law. Local communities (indigenous or mixed-background) have over the past two years begun to interpret these new and potential powers in occasionally violent ways. As has been reported previously, there are at least fifty and possibly hundreds of small and medium mines that have been "taken" by local communities in Bolivia. The Ministry of Mining is officially responsible for arbitrating these disagreements, but parties on both sides of the issue complain that the Ministry has little influence and no enforcement capability.

15. (C) A U.S.-owned but locally-managed mine in Cochabamba is an example of such a community takeover. The Santa Maria mine was left to two Amcit sisters by their father; the sisters currently run the mine with the help of mining consultant and former state-mining company manager Charles "Scottie" Bruce. According to Bruce, the women's father invested roughly USD1.5 million in the mine, which should at today's prices be producing concentrates valued at USD50,000 per month. The mine employed approximately 60 miners before it was taken by the local community on July 4, 2007. According to Bruce, he and the mine's management have filed a series of injunctions against the community members. Local officials ordered the police to enforce a stop-work order on March 25, 2008, and the police entered the mine and evicted the community members. The next day, members of the community descended on the mine, killing two miners and injuring ten. According to Bruce, the company's miners are getting desperate after a year of no production and are considering trying to re-take the mine again.

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Taxing Taxes
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¶6. (SBU) Bolivia ranks slightly better on taxes in the Fraser survey, being considered only the sixth-worst country by survey respondents. Survey respondents may not have been aware, however, of a new requirement under Bolivia's tax code which results in tax payments for changes in assets and loan amounts due to inflation and the exchange rate (basically a tax on paper changes, see reftel.) This in conjunction with the new taxes of 37.5%, plus royalties, plus surtax (in the case of large mines such as Apex's San Cristobal) leads the president of Bolivia's private mining association, Humberto Rada, to warn that the Bolivian government may plan "expropriation through taxation."

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Seeking Common Ground with Jindal
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¶7. (C) Mining association representatives such as Rada hope to meet with executives of India's Jindal company, which has a contract to mine the Mutun iron deposit on the border with Brazil. If the Mutun mine begins production, it could become the largest mine in Bolivia. Because the Jindal contract is one of President Evo Morales' proudest achievements, the mining association hopes to benefit from Evo's enthusiasm for the project (as a way of counteracting MAS antipathy to U.S. investment and mining in general.)

¶8. (C) According to the Mutun contract, Jindal will be subject to all national taxes and therefore will be affected by the new tax adjustment (reftel) and by the 37.5 percent tax on mining operations. In addition, based on its size, Jindal may be subject to an extra 25 percent surtax which is currently only paid by Apex's San Cristobal mine. However, contacts at the honorary Indian Consulate feel that Jindal will be exempt from taxes, thanks to "previous agreements" which will help Jindal although they are not in the text of the contract. It is not clear whether Jindal and the Indian Consulate representatives have been led astray by government promises or whether there is some loophole that will allow them to be tax-exempt. The contract also eliminates any right Jindal might have to "diplomatic" recourse in disputes.

¶9. (C) The honorary Indian diplomats are confident, however, that Jindal will not face the same problems in Bolivia that U.S. mines have: "What you have to do is make Evo fall in love (with a project). If you have Evo's support, you're okay." According to Murillo, Evo is still "in love" with Jindal's Mutun project, despite delays that are currently drawing protests from communities near the proposed mine. (Note: When the Jindal agreement was publicized over a year ago, Evo hailed it as a USD 2.1 billion investment yielding thousands of jobs. Jindal is currently still in the exploration stage, suggesting that any estimates of total investment were premature. In addition, the Bolivian government has not started the infrastructure improvements, such as roads and railroads, that it promised Jindal in support of the project. Finally, the favorable gas prices granted to Jindal in the contract may never come to fruition, since Bolivia faces shortages of gas and inability to comply with existing international contracts. End note.)

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Comment
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¶10. (C) Whether or not President Morales announces more actions against the mining industry as a popularity boost before the August 10 referenda, the damage has been done in terms of investment. Even investments strongly supported by Evo--such as Jindal's Mutun project--are hindered by misunderstandings and community protests. With commodities prices soaring and the minerals industry in a "superboom", a mineral-rich country like Bolivia could be attracting major international interest and extensive exploration. President Morales and the MAS will benefit in the short term by taxing and expropriating mining concerns. Future leadership--and the Bolivian people--will pay for opportunities lost during Morales' tenure. End comment.

